Moody's Investors Service

New Issue: MOODY'S ASSIGNS MIG-1 RATING TO THE STATE OF IDAHO $500 MILLION TAX ANTICIPATION NOTES SERIES 2009

Global Credit Research - 17 Jun 2009

Moody's affirms Aa2 State of Idaho issuer rating and the Aa3 rating on outstanding lease revenue bonds issued by Idaho State Building Authority; $824 million in outstanding debt affected.

State
ID

Moody's Rating

ISSUE	RATING
Tax Anticipation Notes, Series 2009	MIG 1

Sale Amount	$500,000,000
Expected Sale Date	06/23/09
Rating Description	Tax Anticipation Notes

Opinion

NEW YORK, Jun 17, 2009 -- Moody's Investors Service has assigned a MIG 1 rating to the State of Idaho's Tax Anticipation Notes Series 2009 and has affirmed Idaho's issuer rating of Aa2 with a stable outlook and the Idaho State Building Authority (ISBA)lease revenue bond rating of Aa3 with a stable outlook. The tax anticipation notes are secured by tax revenues to be received by the state's general fund during the fourth quarter of fiscal 2010 and the state's full faith and credit general obligation pledge. In addition, the state treasurer has covenanted to access alternate cash resources in other state funds if necessary to repay the notes. The best-quality short-term note rating reflects a history of conservative cashflow projections for the general fund, very substantial alternate resources available, and the strong underlying credit quality of the state of Idaho.

The Aa2 issuer rating on the state reflects a history of conservative fiscal management, low but rising debt levels, relatively diverse economy, and low wealth levels. It is important to note that Idaho is not immune to the current economic downturn and is experiencing revenue declines similar to other states. However, the state has been quick to react to sudden revenue drops by reducing expenditures of the state. The Aa3 rating assigned to the ISBA's debt reflects the Aa2 Issuer rating of the state and the subject to appropriation nature of debt repayment.

The state plans a sale of $500 million of notes on or about June 23, 2009. Proceeds will be used to fund temporary cash flow imbalances in the state's general fund during fiscal 2010, pending expected cash surpluses later in the fiscal year. The state has regularly and successfully issued short-term notes for cashflow purposes since 1986.

GENERAL FUND CASH BALANCE PROJECTED AT $42 MILLION AFTER JUNE 2010 NOTE REPAYMENT

The notes are payable from anticipated and pledged fiscal 2010 fourth-quarter general fund receipts. Most receipts are derived from individual income, sales, and corporate income tax collections. A larger portion of receipts accrue in the second half of the fiscal year, while disbursements, primarily for schools, are concentrated in the first half. Without proceeds from the current notes, the state's cashflow projections show deficits in August through May. The greatest month-end deficit is projected to occur in November and is expected to be $647 million.

The state's cash flow projections anticipate fourth-quarter revenues of $858 million, providing just 1.7 times coverage of the note principal. The 2010 fourth quarter revenue projection shows a 1% increase over expected fourth quarter revenues in the current fiscal 2009, reflecting slower revenue growth as a result of the economic downturn. The full-year fiscal 2010 projection shows flat revenue growth and a June 2010 ending balance, after note repayment, of $42 million (about 1% of revenues), a minimal cushion to absorb potential revenue and expenditure forecast risks. Based on the fiscal 2010 cashflows, expenditures decrease by about 7%, reflecting the expenditure reductions put in place during fiscal 2009. Expenditures exceed revenues by $15 million, with the difference covered by a strong opening balance ($57 million).

The state's forecasts of receipts and ending balances have historically been conservative, with actual balances significantly exceeding projections. For fiscal 2008, the actual ending balance of $191 million exceeded the forecast of $104 million by 84%. The state conservatively forecast a fiscal 2009 ending balance of just $54 million in anticipation of the economic downturn, and the state is on track to end the year with a $57 million ending balance. In instances of revenue underperformance such as that experienced during fiscal 2009, the state has demonstrated an ability to maintain tight control of expenditures during the year through the use of "holdbacks" of agency spending authority when necessary to maintain budget balance. The governor instructed state agencies to "holdback" 4% of appropriations in October 2008 and the legislature approved these and instituted an additional reduction of 2% in February 2009.

SUBSTANTIAL INTERNAL BORROWABLE RESOURCES ARE A KEY CREDIT FACTOR

In the event of a deficiency on or before the note payment date (June 30, 2010), the state treasurer covenants to cause any legally available moneys to be deposited into the note payment account to meet principal and interest on the notes. To this end, substantial moneys are available via interfund borrowing from a variety of funds maintained by the state treasurer - the largest of which is the Local Government Investment Pool. Such internal borrowable resources are projected to total $2.7 billion in June 2010, providing substantial alternate liquidity if needed. Available resources have consistently exceeded $2 billion over the past five years.

The Local Government Investment Pool ($1.4 billion) accounts for about 50% of the total available funds. Various other accounts are also available, including the permanent building fund, state highway and insurance funds, and the state's budget reserve. Clear statutory authority exists to borrow from these accounts over the year-end if necessary, a key factor in the MIG 1 note rating. In December of 2008 the state undertook an internal borrowing of $41 million which was repaid in January 2009.

HISTORY OF EARLY FUNDING OF NOTE PAYMENT ACCOUNT

The state covenants that all income collected during the fourth quarter shall be deposited into a note payment account until the balance in the account is equal to the amount required for note interest and principal repayment. Projections indicate that the account will be fully funded by June 2010, although the state historically fully funds the account by April.

Funds deposited in the note payment account are irrevocably appropriated and set aside solely for note payment. They are held by an escrow agent (US Bank) and are invested at the direction of the treasurer. Funds may be invested only in instruments specified by Sections 67-1210 of the Idaho code. While the range of investments permitted by the code was recently expanded to include single A-rated corporate bonds, the treasurer's historical practice of emphasizing the highest liquidity and safety of principal in note payment account investments is expected to be maintained.

FISCAL YEAR 2009 REVENUES REVISED DOWNWARD

The state revised fiscal 2009 revenues downward midway through the fiscal year to reflect the slowing economy. The original forecast for 2009 assumed revenue growth of 2.8%. At the start of the 2009 legislative session, the current year revenues were reviewed and revised downward by 9%, due to weaknesses in all major revenue categories, particularly individual income and sales tax. Revenues are currently running 3% ($78.2 million) below projections, with the fiscal year set to end June 30th 2009. The state will utilize a small portion of the budget reserve fund to cover any year end shortfall.

FISCAL YEAR 2010 GENERAL FUND BUDGET

The adopted fiscal 2010 general fund budget ($2.5 billion) assumes no revenue growth and a 9% decline in expenditures over fiscal 2009. Most of the decline reflects the 6% across the board cuts the state made during fiscal 2009 which carried through to fiscal 2010. The state will utilize a $510 million of funds provided by the American Recovery and Reinvestment Act. The bulk of the federal stimulus funds will be used to back fill cuts the state made in critical areas such as education, health and human services and infrastructure improvements. The general fund is projecting an ending budgetary balance of $42.5 million.

State reserve levels are healthy totaling about $322 million, 13% of revenues. This includes $140 million currently in the budget stabilization fund (which brings the fund to the statutory cap of 5% of revenues), $68 million currently in the economic recovery fund, and $114 million in the public education stabilization fund.

STRONG DEMOGRAPHIC TRENDS BENEFIT ECONOMY

Idaho's economy has diversified in recent years, benefiting from strong population growth. Population growth has consistently outpaced the nation; Idaho experienced 2% growth vs. 0.9% growth for the U.S. in 2008. The state has seen particular growth in the technology sector, including both manufacturing and tech related services. Despite diversification, an above average dependence on the natural resource sector remains, particularly outside of the Boise area.

State employment growth since 2000 has been above U.S. levels, with similar yearly directional trends. However, in the current economic downturn Idaho is outpacing the U.S. in terms of job losses. As of May 2009 Idaho employment growth is -5.8% outpacing the U.S at -4.0%. This is primarily a result of layoffs associated with the technology sector. Micron Technology Inc., the largest employer in the state, will layoff roughly 2,000 employees by August 2009. State unemployment rates continue to be lower than national levels, 7.8% and 9.4% respectively.

DEBT BURDEN IS LOW

Idaho currently has no general obligation debt outstanding. The state does have outstanding $285 million in appropriation debt issued by the Idaho State Building Authority and $539.5 million in GARVEE bonds issued by the Idaho Housing and Finance Association

The state's conservative debt policies have led to modest state debt levels, falling well below national medians. Per Moody's 2008 State Debt Medians report, the state's net tax supported debt per capita is $354, as compared to the state median of $889. Net tax supported debt as a percentage of personal income is 1.2%, as compared to the 2.6% state median.

MOST RECENT RATING ACTION

The last rating action with respect to the State of Idaho was on June 13, 2008, when a rating of MIG1 was assigned to the Series 2008 Tax Anticipation Notes. The principal methodology used in rating this issue was "Short Term Cash Flow Notes", which can be found at www.moodys.com in the Credit Policy & Methodologies directory, in the Ratings Methodologies subdirectory. Other methodologies and factors that may have been considered in the process of rating this issue can also be found in the Credit Policy & Methodologies directory.

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